PREME COURT, U. S.

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IN THE

SUPREME COURT OF THE UNITED STATES.

No. 445.

STANDARD INDUSTRIES, INC.,
Petitioner,

vs.

TIGRETT INDUSTRIES, INC., ET AL.,
Respondents.

RESPONDENTS' BRIEF

In Opposition to Petition for Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit.

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STATEMENT.

The written agreement of November 25, 1964 involved the sale to petitioner, Standard Industries, Inc., of substantially all of the assets of the infant products division of respondent, Tigrett Industries, Inc. The consideration was comprised of cash and the override royalty payments to accrue from the licenses* provided in paragraph 16 (e)

* Although the term "license" is used, the arrangement was actually one of assignment wherein the payments were based upon productivity.

and (e) of said agreement, which respectively related to the manufacture of the PLAY-A-ROUND and GOLDEN CONVERTIBLE playpens. Both of these playpens had been well established in the marketplace by Tigrett Industries, Inc. at the time of the agreement, each having been sold on a very well received, national level. Petitioner, through its wholly owned subsidiary, Jackson Furniture Corporation, has continued the manufacture and sale of these two playpens.

The patents involved in subparagraphs (c) and (e) of paragraph 16 of the agreement had been sold and assigned to Tigrett Industries, Inc., as purchaser, by respondent, John Burton Tigrett, as vendor, in 1955 and 1961, respectively, as evidenced by contracts (trial exhibits 1 and 2, respectively) under which the said John Burton Tigrett was to receive a royalty of three (3%) percent. In each of said contracts, there was provided the following condition:

> "This agreement shall automatically be cancelled and terminated in the event of bankruptcy of purchaser (Tigrett Industries, Inc.) or assignment by purchaser (Tigrett Industries, Inc.) for the benefit of creditors."

Pursuant to said paragraph 16 (c) and (e) of the agreement of November 25, 1964, Tigrett Industries, Inc. executed assignments on December 22, 1964 of the patent rights it acquired under the said contracts with respondent, John Burton Tigrett, to Jackson Furniture Corporation*, a wholly owned subsidiary of Standard Industries, Inc. Both assignments were accepted in writing by Jackson Furniture Corporation.

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* Jackson Furniture Corporation was established by petitioner for the express intent of taking over the assets of Tigrett Industries, Inc. For the purposes of this litigation, Jackson Furniture Corporation is the alter ego of petitioner and is hence one and the same therewith.

On April 26, 1965, over four months after the assignments to Jackson Furniture Corporation, Tigrett Industries, Inc., for the benefit of its creditors, assigned to The First National Bank of Jackson, Tennessee and the National Bank of Commerce, Jackson, Tennessee, the two percent (2%) override payment to be paid to Tigrett Industries, Inc. under paragraph 16 (c) and (e) of the agreement for the purchase of assets of November 25, 1964. Note must be made of certain language incorporated in the assignments of the patent rights from Tigrett Industries, Inc. to Jackson Furniture Corporation, namely:

> "Tigrett Industries, Inc. does hereby sell, assign, transfer and convey unto Jackson Furniture Corporation, its successors and assigns, the entire right and interest in and to the aforesaid Letters Patent * * * And the Jackson Furniture Corporation, the purchaser, agrees to abide by all the obligations, terms and conditions of the seller herein, Tigrett Industries, Inc., as more specifically set forth in an agreement dated July 19, 1961, between John Burton Tigrett of Jackson, Tennessee and Tigrett Industries, Inc."

* * * * * * * *

At no time during this litigation has petitioner raised any question concerning the invalidity of the patents which had been assigned to Jackson Furniture Corporation by respondent, Tigrett Industries, Inc. This matter was not pleaded in its answer; not developed or even suggested during the trial before the District Court; not involved in any question on the appeal to the Circuit Court of Appeals. There has been no urging by petitioner that the patents under which it has manufactured and sold the playpens in question were invalid. A review of the record in this case shows that at the time of filing its answer, Petitioner merely denied that the PLAY-A

ROUND and GOLDEN CONVERTIBLE playpens were covered by the patents in suit. The question as to cancellation of the agreement was brought up, apparently as an afterthought, only sometime shortly before the trial, many, many months after April 26, 1965. As the record further reveals and as set forth in the opinion of the District Court, petitioner based its defense upon only two grounds — one being that the playpens involved were not within the claims of the patents; and the other being that the assignments made by Tigrett Industries, Inc. to the aforesaid Banks in some way caused a cancellation of the agreement under which petitioner was to pay the royalty to John Burton Tigrett and the overriding payment to Tigrett Industries, Inc. These were the only two issues before the Court and were the ones which defendant announced at the outset of the trial upon which it would bottom its refusal to make payments. The Court did not restrict petitioner to any specific number or character of defenses.

Petitioner, at its own discretion and election, did not at any time attempt to attack the validity of the patents involved. Therefore, admittedly, neither the District Court nor the Court of Appeals held that petitioner could not attack the validity of such patents, as petitioner so erroneously avers on page 6 of its Petition. Petitioner provided no basis for such a holding.

Subsequent to the trial before the District Court, petitioner conceded that its PLAY A ROUND playpen (the same as had been previously produced by Tigrett Industries, Inc.) was within the claims of the patent identified in paragraph 16 (c) of the agreement of November 25, 1964, and in its Petition for Writ of Certiorari (p. 8), petitioner asserts that it is not questioning the validity of said patent. (Interestingly, despite such position, petitioner has never paid any royalty or override payment

on its production of such playpens.) On page 7 of the Petition, petitioner directs attention to an exchange between its counsel and the Court which did relate to the aforesaid PLAY-A-ROUND Patent and to a certain other patent referred to in paragraph 20 of said agreement. Thus, this excerpted colloquy was concerned with an issue of contract construction and not patent invalidity.

ARGUMENT.

Holding of This Court in LEAR, INC., v. ADKINS Not Applicable in This Case.

Petitioner urges that since this Court held most recently in **Lear, Inc. v. Adkins** (1969), ... U. S. ..., 23 L. Ed. 2d 610, that a licensee is not estopped to attack the validity of a patent under which it is licensed, petitioner should automatically be permitted to cause this case to be retried on that issue. Petitioner contends that the **Lear** decision be accorded retroactive application whether or not invalidity was raised at anytime during the litigation. The position of petitioner in this regard, if permitted, would allow petitioner to return to the District Court and to attempt to set up a defense which it had never considered at anytime prior to the holding in the **Lear** case. In that case, the defendant, long before Adkins' patent issued, searched the Patent Office files and discovered a patent which it conscientiously believed fully anticipated Adkins' invention. Adkins was obviously informed of defendant's position for refusing to pay royalties as based upon anticipation. Furthermore, throughout the extensive litigation in the California courts, the licensee continuously sought to raise patent invalidity as a defense. Thus, there was before the California courts, as well as before this Court, the issue as to patent invalidity, together with the underlying evidence presented by the licensee in support of its said defense.

The present case is a far cry from the **Lear** case since, as stated herein, petitioner at no time even remotely suggested the invalidity of the GOLDEN CONVERTIBLE Patent. As a matter of fact, it did not go to the extent of presenting patents for the purpose of limiting the scope of the claims thereof.

There is no foundation in the record in this case for the gratuitous statements of petitioner in its Petition to the effect that if it had been "permitted" to attack the validity of the said patent, a different result would be obtained. Such comments are speculations on the part of petitioner, expressing nothing more than a hope if it be allowed to re-open this case to assert and try a defense which it has never previously considered. In the **Lear** case, the issue of patent invalidity was raised, whereas, in the present case there was no suggestion of such.

This Court has consistently denied writs of certiorari with respect to any question which was neither pleaded, litigated in the trial court, nor considered by the Court of Appeals. **McCullough v. Kammerer Corp.** (1945), 323 U. S. 327; **Burnet v. Commonwealth Improvement Co.** (1932), 287 U. S. 415, 418; and **Husty v. U. S.** (1931), 282 U. S. 694. Petitioner for the very first time in this protracted litigation has now raised the issue of patent invalidity, but with respect to only one of the two patents, being obviously the one under which it has been more productive. Respondents respectfully urge that **Lear v. Adkins** is without applicability to the present case in view of the facts thereof and that to allow this case to be returned to the District Court so that Petitioner can assert a new defense for the first time would be clearly inequitable.

The assignment of the GOLDEN CONVERTIBLE Patent was but a part of a total transaction relating to the sale of a business. The payments to be made to respondents upon playpens produced under the patent in question were to be a part of the consideration for the purchase of this business. Thus, if arguendo, petitioner were to be allowed to reopen the case for the purpose of urging patent invalidity and were to be successful in such endeavor, then it is obvious that respondents would be unfairly deprived of the just consideration for the sale of its business.

In such a circumstance, there would have to be provided the right for Tigrett Industries, Inc., to annul the written agreement of November 25, 1964 and thereby reacquire its entire business; for, certainly, petitioner should not be accorded a Court approved method for reducing the consideration which it agreed to pay for a total package. Certainly, **Lear, Inc. v. Adkins** should not be applied retroactively, much less in a case wherein the matter of patent validity was not raised.

GOLDEN CONVERTIBLE Patent Clearly Not Invalid.

The statements made in the Petition concerning this Patent (p. 8) are obviously self-serving, being without any objective foundation whatever; expressing merely the subjective views of a petitioner who wishes to avoid paying for benefits and rights had, received, and continuously enjoyed. Petitioner was not denied at any time permission to urge that the GOLDEN CONVERTIBLE Patent was invalid, nor to bring to the District Court's attention any invalidating prior art. Standard Industries, Inc., did not elect to attack the validity of the patent under which it operates and of which it is the assignee. Since its other defenses have failed, it is now attempting for the first time to raise this issue in an effort to escape payment of a part of the purchase price for a going business, which it has continued in the same profitable manner as its predecessor.

Doctrine of Equivalents Manifestly Applicable.

The District Court found, and the Court of Appeals affirmed, that the GOLDEN CONVERTIBLE playpen of petitioner operated in substantially the same way and with the same result as the structure claimed (p. 8a of Petition). The playpen of petitioner is identical with that defined in the claims of the patent in question, except that

petitioner used a single hole while the claims recited two holes through which the draw strings were projected. The case of **Graver Tank & Mfg. Co. v. Linde Air Products Co.** (1950), 339 U. S. 605, is still the controlling precedent with respect to the doctrine of equivalents. Therein, this Court most aptly stated:

> "The essence of the doctrine (of equivalents) is that one may not practice a fraud on a patent (p. 608)."

And this Court further stated:

> "The courts have also recognized that permitting imitation of a patented invention which does not copy every literal detail would be to convert the protection of the patent grant into a hollow and useless thing. Such a limitation would leave room for—indeed encourage—the unscrupulous copiest to make unimportant and insubstantial change and substitutions in the patent which, though adding nothing, would be enough to take the copied matter outside the claim, and hence outside the reach of law" (p. 607).

Pertinent to the present case wherein defendant has appropriated plaintiffs' novel drawstring arrangement, is this Court's statement:

> "One who seeks to pirate an invention is like one who seeks to pirate a copyrighted book or play, may be expected to introduce minor variations to conceal and shelter the piracy. Outright and forthright duplication is a dull and very rare type of infringement. To prohibit no other would place the inventor at the mercy of verbalism and would be subordinating substance to form" (p. 607).

In discussing what actually constitutes equivalency, this Court went on to say:

> "Equivalence in the Patent Law is not the prisoner of a formula and is not an absolute to be considered in a vacuum. It does not require complete identity for every purpose and in every respect" (p. 607).

The case of **Graham v. John Deere Co. of Kansas City** (1960), 383 U. S. 1, has no reference whatever to the doctrine of equivalents. The decision of this Court in that case dealt with the question of patent validity in view of the provisions of the Patent Act of 1952 relative to patentability. Thus, the holding in the **Graver** case was in no way affected by the decision in **Graham.**

Contrary to petitioner's statement, the District Court did not ignore the doctrine of file wrapper estoppel in reference to the construction of the claims of the GOLDEN CONVERTIBLE Patent. Page 9 (a) of the Petition demonstrates the careful consideration of said doctrine by the District Court.

There is not a different standard for determining whether a product is covered by the claims of a licensed (or assigned) patent than that for determining whether a product infringes such claims. The same rules apply in each case. In this connection, see **General Motors Co. v. The Swan Carburetor Company** (CCA 6—1930), 44 F. 2d 24, 25; **Gridiron Steel Co. v. Jones & Laughlin Steel Corp.** (CCA 6—1966), 361 F. 2d 791; and also **Ellis on Patent Licenses** (3rd Ed.), Baker, Voorhis & Co., Inc. (1958), Section 117. Therefore, in holding the playpen of petitioner to be covered by the GOLDEN CONVERTIBLE Patent, the District Court and the Court of Appeals applied the only standard and that is that the structure met the test of infringement. There cannot be two possible constructions of a claim. Either the accused device is comprehended therein or it is not and, obviously, in the present case, petitioner's structure was covered. The doctrine of equivalents was properly applied in this case.

No Violation of Any Constitutional Right of Petitioner.

With reference to the facts set forth in the STATEMENT herein, petitioner, through its subsidiary, stepped into the shoes of Tigrett Industries, Inc. with respect to its obligations under the contracts to pay royalties to respondent, John Burton Tigrett. From and after December 22, 1964, the date of the assignments to the subsidiary of petitioner, the only right Tigrett Industries, Inc. had was the right to receive the two percent (2%) override payment for a period of five (5) years, such right being vested in it by virtue of the agreement of November 25, 1964, which was an independent contractual right arising from petitioner and not arising from any contractual obligation between Tigrett Industries, Inc. and John Burton Tigrett. Petitioner, through its subsidiary, Jackson Furniture Corporation, was thus substituted for Tigrett Industries, Inc. and there then existed between it and John Burton Tigrett the same rights and obligations as had theretofore existed between Tigrett Industries, Inc. and John Burton Tigrett. From and after December 22, 1964, if Jackson Furniture Corporation went bankrupt, or if Jackson Furniture Corporation thereafter made an assignment for the benefit of creditors, then, in that event only, the underlying contracts would have automatically been cancelled. The said instruments dated December 22, 1964 extinguished the legal relations between Tigrett Industries, Inc. and John Burton Tigrett and substituted a precisely identical set of relations between John Burton Tigrett and Jackson Furniture Corporation (i. e., Standard Industries, Inc.).

The assignment for the benefit of its creditors by Tigrett Industries, Inc. in April, 1965, of its right to collect the two percent (2%) override payment did not emanate from the basic underlying contracts nor could said assignment for the benefit of creditors have any

bearing on the basic underlying contracts because after December 22, 1964, Tigrett Industries, Inc. had no legal interest whatever in such contracts.

As succinctly put by **Corbin on Contracts**, pages 637 and 638:

> "The transfer of property in land or chattels is the extinguishment of the legal relations of the former owner with the rest of the world. . . . The assignment of a contract right extinguishes the right of the assignor against a third person, and substitutes a precisely similar one in the assignee."
>
> "(In an assignment) the substitution of a new owner of that right has taken place: The transfer has been executed. The duty of the obligor is now owed to the assignee, and that duty is not effected by the discharge of the assignor from his debts."

In the second of the two paragraphs quoted above, Corbin is referring to the discharge in bankruptcy of an assignor after an assignment has been made by him, that the same logic would hold true insofar as an assignment for the benefit of creditors is concerned.

The case of **Mason v. Electrol, Inc.** (1944), 292 N. Y. 482, 55 N. E. 2d 747, cited by petitioner, is not relevant as the case therein deals with the failure by one of the parties to an agreement to perform. That case had nothing to do with a situation wherein there was a substitution of parties but only with respect to the activities of the same parties who both executed the original and only agreements. Additionally, the cases cited on page 13 of petitioner's brief do not deal with any similar factual situations, nor do they deal with any automatic termination provisions.

Neither the District Court nor the Court of Appeals ignored any contractual provisions in the underlying

agreements and no constitutional right of petitioner was in any way violated by holding the petitioner obligated under the contracts in issue to make the specified payments to respondents.

The statements appearing on page 11 of petitioner's Petition are indeed misleading. Neither Court made a new contract for the parties and the agreements were enforced according to their exact, original terms.

CONCLUSION.

The Writ of Certiorari herein sought should be denied.

Respectfully submitted.

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